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# POLITICAL SCIENCE QUARTERLY.

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## THE TARIFF ACT OF 1894.

NOW that the tariff act of 1894 has passed into history and the clamor of campaign abuse and praise has come to an end for a space, it may be well to review briefly the history and the provisions of the measure, and to consider what place it has in the development of our tariff legislation. Current events pass rapidly into history, and details which were familiar when fresh are easily forgotten as new happenings press their claims to immediate attention. Some account of the act of 1894 deserves to be put on record before it is relegated to that past which is so recent as not yet to have a place in the pages of history.

### I.

First, briefly to recall the events which led up to the new measure. It may be traced directly to President Cleveland's tariff message of 1887, which committed his party, till then but half-hearted, to an unreserved declaration in favor of free raw materials and lower duties on manufactures. On the issue thus raised, the campaign of 1888 brought a victory for the Republicans, followed in due time by the tariff act of 1890—a measure which, it is safe to say, would never have been brought forward had it not been for the accentuation of party differences on the tariff that followed President Cleveland's bold stand for lower duties. The Republicans, not discouraged by their severe defeat in the Congressional elections of 1890, held

immediately after the passage of the McKinley Act, were still content in 1892 to accept the tariff issue as the one on which the presidential campaign was to turn. Again they were beaten. The Democrats, twice victorious, might fairly claim an emphatic declaration of the people in favor of their policy. How clear the popular verdict may really have been, is as difficult to say as it always must be to interpret the meaning of a general election. The demoralization of the civil service, the scandals which that demoralization is sure to bring on every administration, the usual reaction of public favor, defections to the Populist Party — all these played their part. On the tariff itself, there has been little in public discussion to indicate that the true questions at issue have been fairly brought to the popular mind. A vague uneasiness about trusts and monopolies, which the protective duties were supposed to promote, clearly had much effect in strengthening the hands both of Democrats and of Populists ; and the comparatively simple questions which at bottom are involved in the protective controversy have been obscured by a cloud of talk about wages and monopolies, British free trade and American patriotism. But the tariff issue certainly had been squarely presented in the campaign, and the Democrats were justified in acting on the theory that the popular will had declared itself in favor of a reduction of duties.

The dissensions among the Democrats which were made plain during the extra session of 1893 did much to deprive the party of the single-minded enthusiasm which the victory of 1892 had at first aroused. The narrowness of the majority in the Senate added to its difficulties. The administration endeavored to restore unity and discipline in the regular session, as it had already done during the extra session, by an insinuating use of the offices. As a matter of abstract political ethics, it would be impossible to defend the use of the executive's powers of appointment as a means of thus influencing legislation. As a matter of practical politics (using that term in its best sense), there might be a question as to whether a moderation of the protective duties, or a revolution in the traditional methods of dealing with the civil service, were the more

important for the community. A president in the position of Lincoln might accept the abuses of the spoils system as rooted evils in our political machinery, to be accepted without further ado in view of the crisis of a civil war. A president who was convinced that a high protective tariff was the greatest evil resting on the community, might similarly submit to these abuses in order to accomplish the one pressing thing. In fact, however, the comparative importance of tariff reform and administrative reform cannot be stated in this way. What the American community now needs more than anything else is a bracing and an improvement of its political machinery—a general reform, of which civil service reform is but a part. Good government, as an end in itself and as an essential preliminary to social ends even more difficult to achieve, is now our most vital concern. No president has been in a better position to advance this cause by great steps than was President Cleveland. He chose to follow the old ways, influenced doubtless by a desire to achieve that remodeling of the tariff system which he had demanded in 1887. The result shows that, as in other cases, the sacrifice was made substantially for nothing. Party cohesion among the Democrats certainly was not promoted. So far as the tariff went, their majority in the House would have carried its measure in any case; while in the Senate, the obstacles from a narrow and uncertain majority were apparently not smoothed a particle by the patronage put at the disposal of sulky senators.

In the House, progress with the tariff bill was comparatively easy. The committee of ways and means, appointed during the extra session of 1893, was able to begin its preparations early, and reported its bill on December 19. The House passed it on February 1, substantially in the shape outlined by the party leaders on the committee. Matters went more slowly in the Senate. There the finance committee reported the bill on March 20, with many and important amendments. The Senate passed it, still further amended, on July 3. The nature of the changes made by the Senate will be more conveniently discussed as the different parts of the act are taken up in detail:

their drift was in one direction, that of raising duties and taking the edge off the reductions proposed by the House.

The House and Senate disagreeing, the bill went to a conference committee. Almost without exception, during the last thirty-five years, the details of tariff bills have been finally adjusted in such committees ; and it was to be expected that in this case, as in others, the act as passed would be half-way between the House bill and the Senate bill. This expectation was disappointed. In the Senate the Democratic majority was small ; the bill there had been passed by a vote of thirty-nine to thirty-four, and among the thirty-nine were two or three Populist senators who owed no allegiance to the Democratic Party. The votes of all the Democratic senators were felt to be necessary for its final passage. Several among them insisted on amendments admitted to be distasteful to the mass of their party associates ; and the close balance of parties in the Senate enabled them to command the situation. President Cleveland's letter to Mr. Wilson, urging resistance to the Senate amendments, had no effect beyond that of making clear to the country what were his own views. Whether better management in the Senate would have secured a result more in consonance with the party pledges, is not easy to say : beyond question, the leadership of the Democrats in the upper branch was lamentably unskillful. In the end, the House accepted all the amendments of the Senate, and the bill as passed by the Senate became the act of 1894. President Cleveland signified his justifiable discontent with its provisions by permitting it to become law without his signature. The act finally went into effect on August 28.

So much as to the immediate history of the act. We may proceed now to consider its main provisions.

## II.

First and foremost comes the removal of the duty on wool, and with it an entire change in the duties on woolen goods. "Wool and Woolens" had been for years the central schedule

in the protective system. The change here is an important — almost a revolutionary one ; and it may be remarked at once that it is almost the only incisive change in the whole act.

Free wool is important politically and economically. The duty on wool had been the most significant feature in the policy of all-inclusive protection which the Republicans had emphasized in the McKinley Act of 1880. It had been almost the only article through which protection could be promised and given to agricultural voters. There had been duties, to be sure, on wheat, corn and meats — articles which were continuously exported and obviously could not be affected by an import duty. But wool was imported, and was really affected by the duty ; and it could be fairly maintained that here the farmers got some share of the benefits of the protective system. Moreover, some of the central states of the country, like Ohio, where there was much wool-growing, were closely divided in politics. Here the wool duty played a prominent part, and it required some courage among the Democrats to present themselves squarely on the platform of free wool.

Economically, the removal of the duty on wool is a crucial application of the principle of free raw materials. In that advocacy of protection which has gained the most respectable hearing from serious students of economics, — the advocacy, namely, of the developing protection, or educational protection, or protection to young industries, — it has usually been explained that crude materials are beyond the scope of the protective policy. Even in the political arguments which we often hear from German writers of the present time, and in which national dependence and self-sufficiency play a large part, the line has usually been drawn against the inclusion of articles of this sort in the protective régime. The desire to encourage the manufacture of woollens has probably been quite as effective as these more theoretical considerations in preventing the extension of the protective policy to wool, even in the countries which in late years have gone so far in the direction of protection. At all events, no country of advanced civilization has maintained any duty on this material, and the

retention of such a duty in the United States was perhaps the most characteristic feature of our protective system. President Cleveland had specifically advocated the free admission of wool in his message of 1887 ; the Democrats had put it on the free list in the Mills Bill, in which they outlined their policy in 1888 ; the Republicans had emphasized their adherence to the opposite policy by increasing the duty on wool in the McKinley Act. Now, at last, it goes on the free list.

It will be convenient to proceed at once to the other side of this question, the changes in the duties on woolen goods. Here the curious system of compound duties suddenly disappears. The manufacturers always insisted, and with good reason, that they were handicapped by the duty on the raw material, and that to offset it a duty must be imposed on the goods made by their foreign competitors. When once the protective policy is fairly in operation, the tendency is always to make generous allowance for disadvantages caused in this way, and so an imposing accumulation of duties becomes possible. Such had been the case with the duties on woolen goods. What with specific duties which were supposed merely to offset the import duties on the raw materials, and *ad valorem* duties which were designed to give net protection, the range of rates had been at eighty, ninety and one hundred per cent on the value. No part of the tariff was more intricate ; in none was it more difficult to ascertain the real degree of net protection finally given the manufacturers ; in none were the duties higher. In place of these old complex rates a simple system of *ad valorem* duties is now established. In the bill as passed by the House the rates were made forty per cent in the first year, with a reduction of one per cent each year for five years, until eventually a definitive rate of thirty-five per cent should be reached. But among the many changes made by the Senate was a moderation of this reduction. The duties on woolen goods were fixed at forty per cent once for all on the more important classes, and at fifty per cent on certain dress goods for women's use, in regard to which claims of vested interests were urged with special emphasis. This result is

obviously far from an abandonment of the policy of protection, and indeed it reveals no appreciable moderation of the policy, so far as manufactures are concerned. The tenderness for the protected manufactures which marks the whole bill is further illustrated by the fact that, while raw wool is admitted free at once, the reduced duties on woollen goods do not go into effect until January 1, 1895. For a season manufacturers get their wool free, yet continue to enjoy the old high duties on their goods.

As to the effects of the general change in the wool and woollen schedule, it is impossible to speak with any certainty. Of course the protectionists predict ruin for the wool-growers from the free admission of wool. In fact, there will probably be some increase in importations, especially of finer wool from Australia ; there may be some decline in domestic prices. In the more thickly settled parts, sheep will probably be raised more for mutton and less for wool. In the ranching regions of the West, the land, if fit for agriculture, may be more rapidly used for arable purposes ; if fit only for pasture, it may be used more for cattle and less for sheep. It is exceedingly doubtful if any very deep-reaching change takes place. The only thing that is clear is that some grades of wool will be cheaper than they were before, especially those grades, the very fine and the very coarse, which have hitherto been imported in view of the duties.

As to woollen goods, there is less uncertainty. A radical reduction of duties might have brought an interesting experiment as to the extent to which industries, highly protected for a generation, really needed their props. The changes actually made leave the props substantially intact. The manufacturers themselves have always based their opposition to the free admission of wool chiefly on the ground that it would destroy the solidarity of protection, — that the farmers, deprived of protection for their wool, would in turn demand free woolsens. It remains to be seen how far this expectation will be fulfilled. To the next stage in our tariff legislation is a far cry, and he would be rash who should predict with confidence an eventual



outcome such as the protectionists fear. At all events, for the immediate future the manufacturers have every reason to be content, and indeed they hardly profess to be otherwise. The advocates of free wool have always maintained, with much show of reason, that their policy, even with greatly reduced rates on woolens, would vivify and benefit the manufacturing industry. As matters stand, the industry gets the benefit of cheaper wool, while retaining very substantial protection on its products. It is likely at the least to hold its own.

One prediction as to the future may be ventured on. Free wool has come to stay : and this, even though a reaction toward protection in general should set in. When the woollen manufacture has adjusted itself to the new conditions and has had wool free of duty for a season or two, its representatives will protest against any change. Agriculture will be found to have been able to endure the shock. A duty on wool and a return to the old complicated system could come only as a partisan bid for the endorsement of extreme protection, such as the Republicans, after the experience of recent years, are very unlikely to make.

We may proceed now to other parts of the measure, and first, to the changes in the duties on other textile materials and products. On the manufactures of cotton there is a change, but no considerable shaving in the duties. On some of the cheaper grades there is a reduction, which on the surface is considerable. Thus the cheapest class of unbleached and unprinted cotton goods becomes subject to a duty of one cent per yard, in place of the old duty of two and one-half cents. But these goods are made as cheaply in the United States as in foreign countries, if not more cheaply ; they would not be imported in any event ; and the change in duties is merely nominal. On finer cotton goods, more than likely to be imported, the changes in rates are slight. The general rates on cotton manufactures not subject to specific duties go down from forty per cent to thirty-five per cent, or from fifty per cent to forty per cent. On certain knit goods and stockings, which were subjected to high and complicated duties by the

McKinley Act of 1890, the new rate is fifty per cent, which, while a reduction from the McKinley rates, is higher than the duty in force before 1890. Silk manufactures, on which the protective duties of the last generation have had very important effects, are hardly touched. The duties on some silks go down from sixty to fifty per cent, on others from fifty to forty-five per cent. The changes are hardly worth mentioning. Much the same is the case with linens. Raw flax, which had previously been subject to a slight duty, is now admitted free. Manufactures of flax are admitted at reductions of duty very similar to those just noted as to silks. Since virtually no linens of finer quality are produced in this country, and those of coarser quality are as effectually shielded by the new duty as by the old, matters remain very much as they were. One change is an exception. Bagging of jute, flax or hemp, for grain or cotton, is admitted free of duty — a direct concession to the farmers and planters.

Next we may turn to the duties on minerals and mineral products. Here the articles to which public attention was chiefly given were coal and iron ore. These are by no means the most important articles in this part of the tariff schedule ; but as they are emphatically raw materials, the question of principle in dealing with such was most hotly raised as to them. The dispute between the two houses of Congress drew to these duties a share of public attention quite out of proportion to their intrinsic importance.

Free coal would be of some consequence on the North Atlantic coast and on the Pacific coast. Both districts happen to be far from the domestic sources of supply, and comparatively near to mines across the border. The Pacific coast gets coal from British Columbia and from Australia, and feels the duty on coal as an undesirable burden. But as there are few manufactures, and as the climate is mild, the burden is not a serious one. In New England, essentially a manufacturing community, the case might be different. Some Canadian mines are geographically a bit nearer than the mines of West Virginia and Virginia which feel their competition. It is a question how

serious that competition would be, how good the quality of the Canadian coal would prove, how effectively the transportation of this coal could be organized. But it is difficult to see any good reason for not giving New England every chance in regard to the supply of coal. The opposition to the repeal of the duty was a clear and simple case of an attempt of certain producers to make levy on consumers. Coal had been made free by the House ; it is subjected in the act to a duty of forty cents per ton. The old rate was seventy-five cents. No amendment made by the Senate was more disappointing to those who were earnest in the advocacy of tariff reform.

The situation is very similar in regard to iron ore. Here, too, the question of duty or no duty was immaterial so far as the great bulk of domestic production and consumption was concerned. The question was simply whether certain iron and steel establishments near the seaboard should get their iron ore free, or should be induced by a duty to buy domestic ore produced at a distance. The only ore likely to be imported in any appreciable quantity was Bessemer ore. Small quantities of other ore, used for mixing with domestic ore, were certain to be imported in any case, duty or no duty ; the question of detriment to producers at home could arise only as to Bessemer ore. Of this, the great domestic source of supply is in the heart of the country, on the shores of Lake Superior. Smelters on the Atlantic seaboard, by virtue of the cheapness of water transportation, are virtually nearer the mines of Cuba, Spain and Elba, than they are to the Lake Superior region. The duty simply enables the product of the latter district to find a market farther east than it would under conditions of freedom. Directly, the issue here was between the great corporations which mined the ore in the West, and the other great corporations which had iron and steel plants on or near the Atlantic seaboard. How far the public would gain cheaper iron and steel is problematic. It might be fairly argued, in view of the long series of producers and middlemen whose operations must intervene before the finished product of industry can reach the consumer, still more in view of the hindrances to unfettered

competition among these middlemen, that not only the immediate question, but the ultimate question, was between two sets of producers, not between the producers and the public. But so far as any question of principle was concerned, everything was in favor of free ore. Arguments as to the development of national industry or the fostering of national independence could not be to the point ; since the great bulk of our iron ore and the great bulk of our iron and steel are sure to be produced within the country under any circumstances.

The fate of the iron-ore duty was the same as that of the coal duty. The House repealed it ; the Senate restored the duty, but at forty instead of seventy-five cents per ton.

The duty on pig iron is brought down in the act from \$6.72 to \$4 a ton. In the House of Representatives the duty had been made twenty per cent, which would have meant a much more considerable reduction on most qualities of iron. Twenty years ago, or even ten years ago, such a change as was proposed by the House would have been of great importance : even that now enacted would have been of moment. Under present conditions, the reduction does not signify much. The production of crude iron has advanced at an enormous rate during the last two decades. With the discovery of new sources of supply, with improvements in production and transportation, the great bulk of the iron would be produced at home, even if there were no duties at all. Some parts of the Atlantic and Pacific seaboards, which are distant from the domestic centres of production, would import iron, if free of duty, rather than buy it at home. This may be done in outlying districts under the reduced duty ; but hardly to any appreciable extent.

The change in pig iron is in the main significant of what has been done with other products of iron and steel. Duties are reduced a bit, but the changes are not often of much importance. Steel rails, for example, which had been subject to a duty of \$13.44, go down to \$7.84. The steel-rail makers have a compact and effective organization, and the duty on their products was unquestionably one of those which con-

tributed to the maintenance of monopoly profits. Nothing could have been lost, and something might have been gained, by a further lowering of the duty. On one other much disputed article a change is made, which will be of greater practical importance. The McKinley Act had greatly raised the duty on tin-plate. This is now reduced by exactly one-half, leaving it at one and one-fifth cents per pound. Curiously enough, the rate is still higher than it was before the McKinley Act was passed, and so that measure still leaves its mark on the statute book. Under the reduced duties, larger imports will doubtless come in, and some cheapening for the consumer will be secured.

One phase of the iron and steel schedule is still to be noticed — the retention of specific duties in place of the *ad valorem* duties which had been adopted by the House. In some cases, it is true, the Senate simply raised the *ad valorem* rates which the House proposed ; and here the outcome is usually a substantial reduction from the old specific rates. Thus the duties on chains, guns and some sorts of cutlery remain in *ad valorem* form, and are considerably lower than they were before. The general retention of specific duties by the Senate was among the changes which most disappointed the advocates of lower duties ; and this for the simple reason that it was made the occasion for higher rates than had been proposed in the other form. So far as the direct question of administrative advantage goes, everything speaks in favor of specific duties ; and our tariff reformers have usually been curiously blind to the difficulties inevitable in the collection of *ad valorem* duties. But these latter have the unquestionable advantage of telling their own tale. What the meaning and effect of a specific duty is, can often be known only to a few persons familiar with the details of some minute branch of trade. In fixing them, the legislator necessarily seeks the advice of experts, who are likely enough to have wishes and interests opposed to those of the public. Wittingly and unwittingly, these duties have often been arranged in a manner to promote the interests of particular enterprises, and so to justify the charge that they

tax the many for the benefit of the few. Hence the natural repugnance of those who are opposed to the principle of protection ; hence their disappointment when the comparatively simple scheme of *ad valorem* duties adopted in the House was transformed by the Senate into a system of specific duties, intricate, bewildering and not unfairly open to suspicion.

Among other articles, perhaps the most important change is that upon earthen and china ware. Here it is somewhat surprising to find a real and effective change in the duty. Finer qualities of chinaware go down from sixty to thirty-five per cent, the cheaper qualities from fifty to thirty per cent. The finer qualities have always been imported in very considerable quantities ; it is very possible that under the reduced duty large quantities of the cheaper grades may also be imported. On what principle these articles should have been selected for special reduction, it is difficult to say ; but certainly there is here a substantial change. Glassware of all sorts remains very much as it was.

### III.

A set of questions entirely different from those which arise in regard to manufactured articles and the raw materials used in them is presented by the duty on sugar. This involves not only the question of protection, but also questions of fiscal expediency, of social policy in taxation and of social policy in industrial organization. The tax on raw sugar involves questions of revenue, and of the social effects of taxation. That on refined sugar presents a curious medley of social problems and issues as to protection.

First as to raw sugar. The duty here is mainly a revenue duty. Roughly, nine-tenths of the total consumption is supplied by importation ; one-tenth comes from the sugar plantations of Louisiana. The duty in the main is thus a revenue duty, while as to the Louisiana product it operates as protective. In the McKinley Act of 1890 sugar had been admitted free, though the principle of protection had been maintained by giving to the Louisiana planters a bounty at the rate of

the old duty (two cents a pound). The domestic production of beet sugar is insignificant, and it played no serious part in the settlement of the sugar schedule.

The reasons for and against the duty on raw sugar may be summarized as follows. In favor of the duty it is to be said that it would yield a large, certain, steady revenue. Some increase in the revenue was agreed on all hands to be necessary. No one change in the McKinley Act had done so much to upset the federal budget as the removal of the duty on sugar, and no one change was so certain to bring an additional revenue as the re-imposition of this tax. In view of the position of the federal treasury as the holder of the metallic reserve for virtually all the paper money outstanding, it was of prime importance to put it in a secure financial position.

Next, while the sugar duty is a tax, it is a direct and unmistakable tax. In the nonsense familiarly presented in advocacy of protective duties (I would not imply that no nonsense is presented on the other side), it is common to hear the assertion that a duty on commodities made at home does not operate as a tax, and that a remission of revenue duties, like those on coffee, tea and sugar, is in a special sense a remission of taxation. It would be the part of courage and honesty for those opposed to protection to impose revenue duties boldly and remit protective duties freely. As between duties on raw wool, coal and iron ore on the one hand, and a duty on sugar on the other, the party opposed to the principle of protection should unhesitatingly choose the latter.

Thirdly, the Louisiana sugar producers were fairly entitled to some consideration. Unlike the wool growers, their industry involved a considerable plant, and offered no opportunity for a quick or easy change to something else. An immediate abolition of duty, or of the equivalent bounty, would unquestionably work hardship for them. In view of the tenderness with which most of the protected industries were treated, they might reasonably complain of any sudden and unconditional withdrawal of the aid which they had had for generations.

The strong argument against the duty is that which bears against almost every indirect tax productive of a large revenue. To be productive, such taxes must be imposed on articles of wide consumption; and articles of wide consumption are always of the sort consumed proportionally more by the poor than by the rich. The tax is socially unjust. The full weight of this objection can be fairly judged, to be sure, only on a consideration of the incidence of an entire system of taxation, — in the present case, not only of the federal taxes, but of the state and local taxes as well. It might conceivably be maintained that the state and local taxes, which are chiefly direct, serve to offset the injustice of an indirect tax like the sugar duty. It is probable that other parts of the tariff schedule, notably the duties on textiles, bear most heavily on commodities consumed by the well-to-do. But a comprehensive inquiry of this sort would almost certainly fail of a satisfactory conclusion; and it is inevitable that Congress should have an eye solely to the federal taxes which are under its control. Add the social injustice of the sugar duty, considered *per se*, to its visible and unmistakable payment by consumers, and the pressure against it becomes formidable in a democratic community.

The conflict between sober counsels in favor of a productive revenue tax, and democratic impatience of a tax suspected of aggravating the unequal distribution of wealth, was emphasized by the income-tax proposal. A discussion of the income tax is not within the scope of the present paper. But obviously such a tax is precisely what the sugar tax is not. The revenue from it is uncertain, and in any case will come in slowly, affording no prompt relief to the treasury. On the other hand, levied as it is only on incomes of over \$4,000 a year, it is a tax on the well-to-do alone, and, so far as it goes, is an attempt to moderate the unequal distribution of wealth. The income tax is popular in the South and West, where the national finances and the strength of the federal treasury are matters of comparative indifference; while the sugar tax (barring the exceptional case of Louisiana) is strongly opposed in those regions.



Curiously enough, the outcome of the action of Congress was that both of these taxes were put into operation. It is true that in the bill as passed by the House sugar was made free and the bounty was given up. But in the Senate the two Louisiana senators were among those whose votes were needed if the tariff bill was to pass that branch, and they insisted on some concession to their constituency. The administration, anxious for a substantial treasury balance, also brought its influence to bear in favor of the sugar duty. Consequently a duty was inserted by the Senate and it remains in the act; while the income tax, which in the House had been in a manner a substitute for the sugar duty, was also retained in the Senate.

To the present writer, fiscal conditions and justice to the Louisiana producers seem to speak in favor of a duty at a moderate rate — say one cent a pound. The duty might have been advantageously imposed for a limited period, for five years or thereabouts, at the end of which time the treasury would probably be able to dispense with the revenue. But the bill as it became law imposed on raw sugar an *ad valorem* duty at the rate of forty per cent. This is not so very far from being equivalent to a specific rate of one cent per pound. The *ad valorem* form is peculiar; and it raises some questions which can be best understood after a consideration of the other aspect of the duty — the rate on refined as compared with raw sugar.

The salient facts as to the sugar refiners and their relations to the tariff system are simple and familiar. Sugar refining has been, almost as a matter of course, within the protective pale, and has been aided by a duty on refined higher than that on raw sugar. The policy of discriminating in this way in favor of the domestic refiners would probably not have been questioned, except in the matter of degree, had it not been for the development of monopoly conditions in the industry by the formation of the Sugar Trust, which later grew to be the American Sugar Refining Company, still popularly known as the trust. This put a new phase on the matter in the public eye,

the more so as the sugar combination had been the first of the original trusts, and had been more prominently before the community than any other. The more ardent free traders have always contended that protective duties are the chief cause of combinations and monopolies, or trusts. It needs no great acquaintance with economic history, and no great skill in general reasoning, to show that the tendency to combination has deeper causes than protective legislation, and presents problems more difficult and more important than those involved in the tariff controversy. But it is undoubtedly true that in some cases the drift toward monopoly conditions has been promoted by favoring duties. Sugar refining happened to be a case of monopoly familiar to all the world; while the nature of the article made a tax in favor of the monopoly producer particularly odious.

With all sugar free, whether raw or refined, the American refiner would be at some slight disadvantage, since freights would amount to a trifle more on raw sugar than on the less bulky refined sugar which might have been imported from foreign quarters. But this disadvantage would be insignificant. Practically, free sugar, as proposed in the House bill, would have left the refining monopoly to stand on its own bottom, neither helped nor hindered by the tariff. A level duty, at the same rate on raw sugar and on refined, would put the refiners to some real disadvantage. From 100 pounds of raw sugar something less (95 to 98) of refined sugar is obtained, and a level duty would operate distinctly to the advantage of the foreign refiner. Hence, if a revenue duty were imposed on raw sugar, and if it were desired to treat the refiners with absolute indifference, a slight additional duty should be put on refined. Exactly how great this additional duty should fairly be, it is not easy to calculate. The data for the calculation must come chiefly from the refiners; and any figures furnished by them must be received with caution. But a very small difference would suffice to prevent refiners from having any ground for complaint. If a duty of one cent a pound were put upon raw sugar, an additional duty of one-twentieth of a cent

would be ample to offset the loss in weight on refined sugar made from the dutiable raw sugar.

Naturally, the sugar refiners wanted something more than bare equality. They wanted a continuance of the favors which the legislature had granted them for generations in the past. In the tariff act of 1890, where raw sugar had been admitted free, refined sugar had been subjected to a duty of one-half a cent per pound. It is probable that the actual business of refining is carried on at least as cheaply in the United States as in any foreign country, and that without any protection at all the sugar-refining industry could maintain itself, and the sugar monopoly make handsome profits. With a barrier against foreign competitors such as the tariff of 1890 gave, the profits were enormous. It was inevitable that great efforts should be made to preserve them.

Briefly, the changes which the sugar schedule underwent during the session were as follows. In the tariff bill as first reported to the House by the committee of ways and means, raw sugar was left free, and a duty of one-quarter of a cent per pound was put on refined sugar. In other words, the largess given to the trust by the act of 1890 was to be reduced one-half. In the House, however, the feeling was in favor of a more radical change. The provision for a duty on refined sugar was struck out; and all sugar, raw and refined, was put on the free list, so depriving the trust of all legislative favors. In the Senate, the finance committee amended the sugar schedule by imposing specific duties on raw sugar, roughly at the rate of one cent per pound, with an additional duty of one-eighth of one cent per pound on refined sugar. The duty on raw sugar was inserted partly to secure revenue, partly to secure the votes of the Louisiana senators for the bill. But when final action came to be taken in the Senate, still another change was made. The duty on raw sugar was changed from specific to *ad valorem* form, and was made forty per cent. Over and above this, the duty of one-eighth of one cent on refined sugar was retained. Still further, a provision which had been introduced into the tariff act of 1890 was also retained, by

which an extra duty of one-tenth of a cent per pound was imposed on refined sugar coming from countries that gave an export bounty. In this form the sugar schedule was passed by the Senate, had finally to be accepted by the House, and so became law.

The final outcome was more than satisfactory to the Sugar Trust. There was the duty of one-eighth of a cent on refined sugar, with an extra one-tenth of a cent on refined sugar coming from those continental countries, especially Germany, which gave an export bounty, and whose competition was alone to be seriously dreaded. The *ad valorem* form of the duty on raw sugar was also advantageous. *Ad valorem* duties are assessed on the value of the imported commodities at the time and place of purchase. Raw sugar comes largely from distant countries, or from countries with which transportation is not highly organized, as from Cuba, Java, Brazil and the Hawaiian Islands. The value at the place of purchase is comparatively low, and freight is comparatively high. On the other hand, refined sugar would be imported, if at all, only from the more advanced European countries. Freight charges from these are low, and the value at the time and place of purchase does not differ very greatly from the value at the American ports. Virtually, therefore, the *ad valorem* duty is less heavy on raw sugar than on the refined, and so yields to the refining monopoly an advantage, not easy to calculate, yet probably substantial. It is certain that this form of duty was advocated by the representatives of the trust—in itself a reasonable ground for suspicion. That the change from the specific to the *ad valorem* form should have been made in the Senate, where the general drift of the changes was in the opposite direction, is one of the mysteries of the session. The *ad valorem* duty has a certain specious appearance of adjusting itself to the varying qualities of raw sugar, and perhaps on that ground won the approval of the secretary of the treasury, whose favorable opinion had much to do with its adoption. But the general grounds on which specific duties are preferable to *ad valorem* could here be offset by no such objections as were

noticed in regard to the specific duties on manufactured goods. The *ad valorem* rate is difficult to defend, on grounds either of administration or of industrial justice.

Much was said during the session and after the session of influences brought to bear by the trust on certain senators. An investigation held during the course of the session brought out some facts freely suspected before, and not creditable to our political life. It was admitted that the trusts had made contributions to the chests of both political parties, although nominally to the state organizations only. No bargains are ever made in these too familiar cases, but it is expected and understood that what is called "fair consideration" will be given to the interests of the obliging donor. It was proved also that some senators had speculated in sugar stock. No protest as to the absence of connection between such dealings and the legislator's vote can save them from the taint of dishonor. It would appear also that the successful outcome of the imbroglio for the trust was promoted by the position of the Louisiana senators, who were anxious to secure a duty on raw sugar, and who seem to have entered into some sort of bargain for supporting the higher duty on refined sugar in exchange for aid to their own efforts.

In any case it is clear that the sort of manipulation by which the refiners succeeded in retaining their favors from the tariff was possible only because of the narrow majority which the Democrats had in the Senate. Where one or two votes would have sufficed to block the whole measure, the opportunity for dishonest or selfish pressure on legislation was easy. It is possible to bribe or convince or interest a few legislators, and induce them to throw to the winds party consistency and public justice ; but fortunately our conditions are not so corrupt as to make it possible to bribe a whole party or overturn a strong majority. In the House, where the Democratic majority was greater, the manipulation of sugar duties was impossible. It was in the Senate, where a change of one or two votes meant failure to the whole measure, that the unsavory result was achieved.

No doubt the strong feeling which the surrender to the sugar monopoly aroused rests largely on a blind opposition to combinations in general, and to the corporations which are supposed, rightly or wrongly, to have a monopoly position. Whether the tendency to combination is to be welcomed or regretted, has not often been soberly considered by the American public. The usual assumption is that it is an unquestionable evil, to be fought in every way by legislation. That disposition which shows itself so markedly among German economists, to welcome combinations and consolidations and to use them as instruments of social reform, here finds hardly an echo. Doubtless the popular instinct is right. The drift to consolidation and monopoly presents problems with which a democratic community can deal only under great disadvantages. To regulate it, to use it, to secure from it the possible benefits, requires a degree of nicety and consistency in legislation which our American communities could reach only by slow and arduous steps. Legislation to check consolidation may be unwise, and probably is futile ; but legislation directed to encourage it, still more legislation to augment the profits of a monopoly, is surely of the worst.

The revulsion against the extreme protective system which showed itself in the elections of 1890 and 1892 was probably in a large degree a consequence of the popular feeling just described. While the essential question as to protective duties is comparatively simple, the intricate reasoning which is needed to follow the effects of such duties into all the ramifications of international and domestic trade can have but little influence on the average citizen. He reasons from few premises, and is affected by simple catch-words. The outcry against trusts and monopolies, though in fact it describes an exceptional rather than the normal working of protective duties, was probably the most effective argument in bringing about the public verdict against the McKinley Act. It is expressive of the general feeling of unrest as to the power of the corporations, the growth of plutocracy, the gulf between the few very rich and the masses of comparatively poor, which is becoming a stronger and

stronger political force, and is destined in the future to have larger and larger effect on legislation.

#### IV.

It is clear that the new tariff act makes no deep-reaching change in the character of our tariff legislation. The one exception is the removal of the duty on wool. Barring this, we have simply a moderation of the protective duties. A slice is taken off here, a shaving there ; but the essentially protective character remains. This would have been the case even had the Wilson Bill, as originally proposed to the House and passed by that body, become law. That less anxiously conservative measure was of course alleged by its opponents to portend ruin to American manufacturers and prostration to American labor. In fact, while it might have affected some industries, it would have caused no considerable disturbance of industry and no appreciable rearrangement of the productive forces of the nation. The act as finally passed is even less potent for good or for evil. As far as it goes, it begins a policy of lower duties ; but most of the steps in this direction are feeble and faltering.

It is natural that comparison should be made between a measure like this, which is declared by one party to be but the beginning of further like changes to come, and the measures by which England's tariff system was shorn of every vestige of protection. No one can be sure what will be the future policy of the United States, and whether it will advance further in the direction now taken. But it is safe to predict that, if it does so, the process of reduction in duties will much resemble that which England went through in the second quarter of this century. The change, if made, will be gradual, with much regard for vested interests, and often more nominal than real. Raw materials will first be dealt with, as they were first dealt with by Huskisson in the third decade of the century. The free admission of raw materials will indeed not have, for generations to come, the degree of importance for the United States

which it had for England. But it is with raw materials that the important changes will be made, and it is probably with them that the changes will have the greatest real effect. The Corn-Law struggle will have no counterpart in the United States ; but this was an episode in English tariff history that stood largely apart from the general movement toward lower duties. As in England during the first half of the century, and as in this American tariff act of 1894, the reduction on manufactures will be largely nominal, — first to a point where the duties will still suffice to ward off foreign competition, and in the end perhaps to the stage of complete repeal, when the articles are produced as cheaply within the country as without, and substantially are not subject to foreign competition at all. Protection on manufactures will be given up, in the main, only when it is no longer needed.

Whether the stage of independence will have been reached in consequence of the duties, will be as difficult to ascertain with accuracy in the case of the United States as in that of England. No assertion is more common with us than that manufactures in England were nursed into independent vigor by the protective duties of the seventeenth and eighteenth centuries, and no promise is more common than that our own protected industries will eventually reach a point in their growth at which support will no longer be needed. The economic history of England during the last three centuries, and that of the United States during the nineteenth century, will need more detailed study than has yet been given them before unqualified answers can be given to the questions here suggested. But as the indications are that England's manufacturing supremacy was due to the inventive genius of her mechanics, her fortunate natural conditions and the spirit of freedom in her industrial and political life, so the indications are that the growth of manufactures in the United States has been due to deeper and more permanent causes than tariff legislation. However that may be, it is clear that the United States is certain under any tariff condition to be a great manufacturing community, with great masses of indus-



tries not protected by duties, or in fact independent of them ; and no process of reduction will change the general trend of our industrial development.

No doubt there are in the United States, as there were in England, industries on which the protective system has more substantial effect. The most striking case in England was that of the silk manufacture, on which the effect of the gradual reduction and eventual abolition of the duties was serious. The finer grades of textiles in the United States — less perhaps with silks than with finer cottons or woollens — present a similar case. These, we may be sure, will be handled gingerly, as they were handled gingerly by the Congress of the present year. Consequently a considerable growth of importations, with a considerable change in the currents of international trade, is likely to appear mainly in those raw materials, such as wool, which may tend to flow into the United States rather than out of it. Such changes, in the nature of the case, must be far less important than they were in England.

As to the future of legislation, whether as to a further moderation of the protected duties in the near future, or the ultimate attainment of anything like free trade, or a growing use of direct taxes like the income tax as important sources of federal revenue, he would be rash who ventured on prediction. The next important contest will come in the election of 1896, when a president and a new Congress will again be chosen. The cue of the protectionists seems now to be to let well enough alone, to accept the tariff as it is, and to protest against disturbance of industry by further legislation. It may be that it is really best to put an end for a while to the uncertainties of the situation ; and the weariness which is inevitable after every long struggle may push the tariff issue into the background and leave duties as they are for a long time to come. A redundant revenue is likely to appear once more in the course of a year or two, and will necessitate some reduction of taxes. Whether the income tax will then go, or the sugar duty, or some of the protective duties, must depend upon

accidents of political fortune as to which there is now little basis for any forecast.

Apart from the right or wrong, the expediency or in expediency of protective duties, it is certainly to be wished that this particular question should occupy a less prominent place in the minds and in the votes of the American people than it has occupied heretofore. The extent to which the prosperity of the community depends on high import duties has been ludicrously exaggerated by their friends ; and the benefits which will accrue from lower duties have been almost as much exaggerated on the other side. A satisfactory solution of the currency difficulties is of more real importance than the modification of the tariff system one way or the other. Even more important is the solution of those great social questions which move more and more into prominence, and which must inevitably command more attention than they have received from legislation and from political parties in the past. The problem of public ownership or public supervision of the means of transportation ; the mode in which the great monopoly industries shall be dealt with ; the question as to labor, the hours of work, the legal rights and actual doings of labor organizations ; the redistribution of taxation by inheritance taxes, by income taxes, by taxes on the unearned increment, — all demand more thoughtful attention than they have received. It may be that the Populist movement, with all its absurdities and extravagances, marks the beginning of a juster attention to such pressing problems. At all events, it is certain that these must eventually push aside issues of comparatively minor importance like the tariff. The sooner the best intelligence of the country, amongst public men and men of affairs as well as among academic students, is turned in this direction, the sooner may we hope for some solution of the really difficult problems that will beset the democracy of the twentieth century.

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